

**MICHAEL A. KAKUK**  
Office of the Montana State Auditor  
Commissioner of Securities and Insurance  
840 Helena Avenue  
Helena, MT 59601  
(406) 444-2040

Attorney for the CSI

**BEFORE THE COMMISSIONER OF SECURITIES AND INSURANCE  
OFFICE OF THE MONTANA STATE AUDITOR**

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IN THE MATTER OF:	)	
	)	CASE NO. SEC-2014-119
	)	
PAUL LEWIS SCHUMACK, II,	)	
	)	<b>AMENDED NOTICE OF PROPOSED</b>
	)	<b>AGENCY ACTION AND</b>
	)	<b>OPPORTUNITY FOR HEARING</b>
Respondent.	)	
	)	

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Staff of the Office of the Commissioner of Securities and Insurance, Montana State Auditor (CSI), pursuant to the authority of the Securities Act of Montana, Mont. Code Ann. § 30-10-101 et seq. (Act), is proposing to the Commissioner of Securities and Insurance, Montana State Auditor (Commissioner), that she take specific action against Paul Lewis Schumack, II (Respondent), for violations of the Act. The Commissioner has authority to take such action under §§ 30-10-102, 30-10-107, 30-10-201, 30-10-202, 30-10-301, 30-10-304, 30-10-305, and 30-10-309.

**REASONS FOR ACTION**

This action was originally filed against Respondent and TBTI, Inc., in May of 2014. However, as set out below, the CSI soon learned that there were both civil and criminal federal proceedings against Respondent and TBTI, Inc. The CSI chose not to pursue prosecution of this

agency action while the federal criminal action was pending against Respondent. The criminal action against Respondent is now resolved; however there is still a stay of civil proceedings involving TBTI, Inc. Therefore the CSI files this Amended Notice of Proposed Agency Action and Opportunity for Hearing against just Respondent, Paul L. Schumack, II, with updated information obtained in the interim.

There is reason to believe that the following facts, if true, justify and support such specific action. Furthermore, there is reason to believe that the following facts will be proven true, and, therefore, justify and support the relief requested.

### **ALLEGATIONS OF FACT**

1. Respondent Paul L. Schumack, II, was the owner and operator of TBTI, Inc. (TBTI), a for-profit corporation organized under the laws of the State of Florida since 2001.

2. Respondent was the president of TBTI, Inc., at its inception, and served as its Vice President/Director in 2014.

3. Between December of 2012 and January of 2014, Respondent sold interests in “virtual concierge machines” to at least 23 Montana residents.

4. Respondent entered into agreements with each Montana resident for the sale of these machines. Under the agreements—a redacted example of which is attached as Exhibit 1—the purchases were “investments” and the virtual concierge machines were part of the Montana investors’ “investment portfolio[s].” Ex. 1.

5. Respondent agreed to operate the machines, and to pay each Montana investor a specific return each month for the life of the agreement.

6. To date, Respondent and TBTI, Inc., have paid only a portion of the money owed under the agreements. A redacted list showing the dates of investment, the amount invested, and the

total amounts paid to date for Montana investors known to the CSI at this time is attached as Exhibit 2.

7. As Exhibit 2 shows, under the terms of the investment contracts signed by Respondent, Respondent and TBTI, Inc., still owe Montana investors at least \$533,150.00.

8. Respondent is not now and has never been registered as a securities salesperson with the CSI.

9. The agreements, including the “Contract for Virtual Concierge machines” (Ex. 1), are not currently and never have been registered as securities with the CSI.

10. On May 14, 2014, the CSI filed a Notice of Proposed Agency Action and Opportunity for Hearing (Notice) and a Temporary Cease and Desist Order (Order) against TBTI, Inc., and Paul L. Schumack. The Notice and Order were sent to TBTI’s principal place of business, which was also the residential address for Mr. Schumack.

11. On May 19, 2014, the CSI learned that Mr. Schumack was party to a civil action by the U.S. Securities and Exchange Commission (SEC), *SEC v. JCS Enterprises, Inc., et al.*, case no. 9:14-cv-80468, in the U.S. District Court for the Southern District of Florida. In that case, the court issued an order staying other civil proceedings, which applied to TBTI, Inc., but not Mr. Schumack. *SEC v. JCS Enterprises*, docket no. 54.

12. In addition, the U.S. Department of Justice (USDOJ) filed a criminal action against Mr. Schumack and others involved in the virtual concierge machine scheme. *U.S. v. Joseph Signore, et al.*, case no. 9:14-cr-80081, also in the U.S. District Court for the Southern District of Florida. In June of 2014, the USDOJ requested that the civil case be stayed until resolution of the criminal matter, and the court agreed. *SEC v. JCS Enterprises*, docket no. 98.

13. On December 7, 2015, Respondent was found guilty of the following federal crimes: one count of conspiracy to commit wire and mail fraud, twelve counts of mail fraud, six counts of wire fraud, one count of conspiracy to commit money laundering, two counts of concealment money laundering, and one count of transactional money laundering. *U.S. v. Signore*, docket no. 678.

14. As detailed in the criminal indictment, Respondent's convictions were based on the business of TBTI, Inc., and the virtual concierge machines that were the subject of Respondent's agreements with Montana residents, as well as residents of other states. *U.S. v. Signore*, docket no. 54.

### **CONCLUSIONS OF LAW**

1. The Commissioner has jurisdiction over this matter pursuant to § 30-10-101 et seq.
2. A "person" is an individual, a corporation, a partnership, or an association. § 30-10-103(16).
3. Respondent is a person as defined under § 30-10-103(16).
4. An "investment contract" is a "security" under § 30-10-103(22)(a)(xii).
5. Under Montana law, an "investment contract" is "an investment in a common venture premised on a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others." *State v. Duncan*, 181 Mont. 382, 392-93, 593 P.2d 1026, 1032-33 (1979); *State v. Redding*, 2012 MT 144A, ¶¶ 23-51, 281 P.3d 189.
6. The Contract was an "investment contract" and therefore a security under Montana law. *Id.*

7. It is unlawful for a person to transact business in Montana as a securities broker-dealer or a securities salesperson unless the person is registered with the CSI or subject to an exemption.

§ 30-10-201(1).

8. Respondent violated § 30-10-201(1) when he sold a security in Montana without being properly registered or subject to a registration exemption.

9. It is unlawful for a person to offer or sell any security in Montana unless the security is registered with the CSI by notification, coordination, or qualification, or is subject to a federal exemption. § 30-10-202.

10. Respondent violated § 30-10-202 when he sold a security in Montana that was not registered with the CSI by notification, coordination, or qualification, and did not qualify for a federal registration exemption.

11. It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, into Montana, to:

- a. employ any device, scheme, or artifice, to defraud;
- b. make an untrue statement of a material fact; or
- c. engage in any act, practice, or course of business that operates as a fraud or deceit upon any person. § 30-10-301(1).

12. Respondent violated § 30-10-301(1) when he entered into each investment contract and promised to sell virtual concierge machines to Montana residents, operate those machines on behalf of those Montana residents, and reimburse those Montana residents at the rates set in those investment contracts.

### **RELIEF REQUESTED**

WHEREFORE, the CSI seeks the following relief:

1. Pursuant to § 30-10-305, imposition of a fine not to exceed \$5,000 for each identifiable violation of the Act.
2. Pursuant to § 30-10-305, an order directing Respondent to cease and desist from offering, promoting, or operating TBTI, or any other business involving securities in Montana or using Montana participants.
3. Pursuant to § 30-10-309, restitution, including interest, for all financial losses incurred by investors in Respondent's enterprises.
4. Any other relief deemed just and proper.

### **STATEMENT OF RIGHTS**

You are entitled to a hearing to respond to this notice, and to present evidence and arguments on all issues involved in this case. You have a right to be represented by an attorney at any and all stages of this proceeding. You may demand a formal hearing before a hearing examiner appointed by the Commissioner pursuant to the Montana Administrative Procedure Act, § 2-4-601 et seq., including § 2-4-631. If you demand a hearing, you will be given notice of the time, place, and the nature of the hearing.

If you wish to contest the proposed action under the jurisdiction of the Commissioner, you must advise the Commissioner within 15 days of the date you receive this notice. You must advise the Commissioner of your intent to contest the proposed action by writing to the Office of the Commissioner of Securities and Insurance, Montana State Auditor, c/o Michael A. Kakuk, 840 Helena Avenue, Helena, Montana 59601. Your letter must clearly indicate whether you demand a hearing, or whether you waive formal proceedings and, if so, what informal proceedings you prefer for disposition of this case. Should you request a hearing on the matters



raised in this Notice, a hearing must be held within a reasonable period of time unless postponed by mutual consent of the parties, pursuant to § 30-10-305.

Should you request a hearing, you have the right to be accompanied, represented, and advised by counsel. If the counsel you choose has not been admitted to practice law in the state of Montana, he or she must comply with the requirements of *Application of American Smelting and Refining Co.* (1973), 164 Mont. 139, 520 P.2d 103, and *Montana Supreme Court Commission on the Unauthorized Practice of Law v. O'Neil*, 2006 MT 284, 334 Mont. 311, 147 P.3d 200.

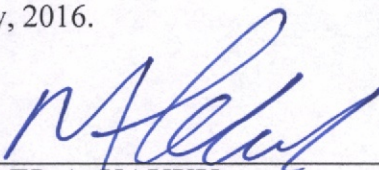
#### **CONTACT WITH COMMISSIONER'S OFFICE**

If you have questions or wish to discuss this matter, please contact Michael A. Kakuk, attorney for the CSI, at 840 Helena Avenue, Helena, MT, 59601, (406) 444-3467. If you retain counsel, please make any contacts with this office through your attorney.

#### **POSSIBILITY OF DEFAULT**

Failure to give notice or to advise of your demand for a hearing or informal procedure within 15 days will result in the entry of a default order imposing the disciplinary sanctions against you without further notice to you, pursuant to Mont. Admin. R. 6.2.101, and the Attorney General's Model Rule 10, Mont. Admin. R. 1.3.214.

DATED this 3<sup>rd</sup> day of February, 2016.

  
\_\_\_\_\_  
**MICHAEL A. KAKUK**  
Attorney for the CSI

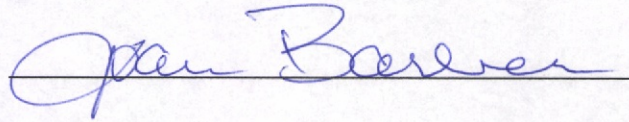


**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing was sent to Respondent on the 3rd day of February, 2016, by certified first-class mail, postage prepaid, to the following:

Paul L. Schumack, II  
FDC Miami  
33 NE 4<sup>th</sup> Street  
Miami, FL 33132

Anthony J. Natale  
Federal Public Defender's Office  
150 W Flagler Street, Suite 1500  
Miami, FL 33130-1556

A handwritten signature in blue ink, appearing to read "Juan Barboza", is written over a horizontal line.



## VIRTUAL CONCIERGE PLACEMENT CONTRACT AND LICENSE AGREEMENT

This Investor Business Agreement ("Agreement") is made effective the 22 of Dec 2013, by and between the individual/business reflected below ("Investor") and T.B.T.I. Inc., a Florida corporation ("Provider") with regard to the following terms and conditions:

Purpose of the Business Agreement: To outline the parameters, duration, responsibilities and guaranteed profitability of the Virtual Concierge (VC) program. The initial term of the contract is for a period of 1 years. This contract has a auto-renewable status for additional one year periods at the end of the initial time period. If the contract is extended in addition to this initial term, then Investor's contract will be automatically renewed with TBTI Inc. for that time period.

NOW, THEREFORE, the following specifications, terms and conditions are agreed as follows:

- I. **Concept of the Operation:** The cost of investment per VC is \$ 3500. This is a one time fee and the Investor owns the equipment outright. There are no monthly fees, expenses or costs for the Investor after their initial payment. Provider is responsible for those related fees, software updates and installation expenses. For whatever reason, the Investor can sell back the VC equipment to the company for the full purchase price within the first six months of ownership. Provider requests that they are provided 30 days notice if equipment is going to be repurchased by them. If the VC is damaged or stolen, the Provider will repair or replace at his cost. Sufficient insurance has been purchased for our program.
- II. **Equipment:** The Virtual Concierge technology system is a patent pending product that will be placed in nationally known hotel franchisees, property management companies and brands. Provider is responsible for the maintenance of this unit to include the software upgrades and professional appearance of this unit. It operates on a standard electrical outlet and the hotel's Wi-Fi network. There are no operational fees assessed to the Provider or Investor to operate this unit. Investor's will be informed of where their unit is located and can inspect their equipment at anytime. Investor will also be provided a log in access password to monitor the activity of their VC online.
- III. **Commissions:** Are calculated at \$300 monthly, every month for the term of the contract referenced above. The first commission check will be mailed to the Investor NLT 30 days from the day that each VC is purchased. Commissions that are due to the hotel will be mailed out on the same day monthly. Provider will be responsible for all commissions and accounting responsibilities. Revenues are based on long term national advertising contracts as well as those supplemented by local businesses.
- IV. **Governing Law:** The failure of either party to enforce at any time any provision of this Agreement or to exercise any right herein provided shall not in any way be construed to be a waiver of such provision or right and shall not in any way affect the validity of this Agreement or any part hereof, or limit, prevent or impair the right of such party subsequently to enforce provision or exercise such right. This Agreement shall be construed in accordance with the laws of the state of Florida.
- V. **Territory Development:** As with an ATM operation, there can be specific territories and development areas designated. With the VC program, this concept can be replicated as well. We are currently creating a program where Investors can be compensated for reselling the VC product line as well as contracting with different locations for placement and local advertising agencies for marketing commissions. Therefore there may be four different avenues to receive commissions.
- VI. **Execution:** The signatures rendered below by both company's representatives below represent that they have read and agree with the terms set forth above and that these terms and conditions are to be adhered to and are legally binding.



820 Iris Drive, Delray Beach FL 33483 Phone: 561-865-5436 Fax: 561-865-7159 [paul@atmhospitality.com](mailto:paul@atmhospitality.com) [www.atmhospitality.com](http://www.atmhospitality.com)

SIGNED "PROVIDER": T.B.T.I., Inc, a Florida corporation:

Approved:

*Paul L. Schumack, II*

RCV'D MT CSI  
STATE AUDITORS OFFICE

2014 APR 10 AM 9 50

Print Name:

Paul L. Schumack, II

Title:

C.E.O.

SIGNED "INVESTOR": Signed By:

Print Name:

Company:

Address:

City, State & Zip:

Phone Number:

Cell:

Fax:

Email:

Date:

Number of Units: 4

Card Type and Number

Expiration Date

Security Code

Billing Name

Billing Address

Billing Phone

The investor has purchased \_\_\_\_\_ additional Virtual Concierge unit(s).

To date, they have 4 Virtuals Concierge (s) in their investment portfolio.

Therefore, they will receive \$ 3000 per month for the entire term of the contract.

Commissions will be paid on the 15<sup>th</sup> of each month for the duration of the agreement.

3000 1st Ave, Delray Beach, FL 33483 Phone: 561-865-6456 Fax: 561-865-7159 paul@atmhospitality.com www.atmhospitality.com

T.B.T.I., INC 2445 South Ocean Blvd  
Highland Beach, FL

33487

## MONTANA INVESTMENTS - SCHUMACK

NAME	DATE OF INVESTMENT	AMOUNT OF INVESTMENT	AMOUNT OF RETURN
Investor 1	12/11/2012	\$9,000.00	\$0.00
Investor 1	3/13/2013	\$6,000.00	\$0.00
Investor 1	12/10/2013	\$9,000.00	\$16,200.00
Investor 2	4/17/2013	\$7,000.00	\$4,800.00
Investor 2	11/22/2013	\$14,000.00	\$0.00
Investor 3	1/12/2013	\$6,000.00	\$6,600.00
Investor 4	12/26/2012	\$7,000.00	\$0.00
Investor 4	1/8/2013	\$7,000.00	\$0.00
Investor 4	2/15/2013	\$7,000.00	\$0.00
Investor 4	2/28/2013	\$3,500.00	\$0.00
Investor 4	3/28/2013	\$10,500.00	\$0.00
Investor 4	7/19/2013	\$7,000.00	\$0.00
Investor 4	9/26/2013	\$7,000.00	\$0.00
Investor 4	10/25/2013	\$10,500.00	\$0.00
Investor 4	12/30/2013	\$10,500.00	\$37,500.00
Investor 5	10/20/2013	\$21,000.00	\$3,600.00
Investor 6	12/17/2013	\$52,500.00	\$0.00
Investor 7	3/20/2013	\$21,000.00	\$0.00
Investor 7	12/2/2013	\$9,000.00	\$18,900.00
Investor 8	(unavailable)	\$152,000.00	\$100,000.00
Investor 9	(unavailable)	\$12,000.00	\$3,600.00
Investor 10	(unavailable)	(unavailable)	(unavailable)
Investor 11	10/22/2013	\$10,500.00	\$2,400.00
Investor 11	11/15/2013	\$7,000.00	\$0.00
Investor 12	1/31/2013	\$15,000.00	\$19,500.00
Investor 12	10/25/2013	\$15,000.00	\$0.00
Investor 13	(unavailable)	\$30,000.00	\$30,000.00
Investor 14	12/17/2012	\$7,000.00	\$0.00
Investor 14	2/21/2013	\$7,000.00	\$0.00
Investor 14	3/23/2013	\$21,000.00	\$0.00
Investor 14	3/25/2013	\$14,000.00	\$0.00
Investor 14	3/28/2013	\$7,000.00	\$0.00
Investor 14	10/18/2013	\$14,000.00	\$0.00
Investor 14	10/20/2013	\$42,000.00	\$0.00
Investor 14	12/9/2013	\$35,000.00	\$54,600.00
Investor 15	7/31/2013	\$14,000.00	\$6,000.00
Investor 15	12/17/2013	\$7,000.00	\$0.00
Investor 16	7/14/2013	\$14,000.00	\$0.00
Investor 16	7/29/2013	\$56,000.00	\$24,000.00
Investor 16	12/17/2013	\$14,000.00	\$0.00
Investor 17	12/17/2013	\$7,000.00	\$0.00
Investor 17	3/28/2013	\$14,000.00	\$10,800.00
Investor 18	03/38/2013	\$35,000.00	\$29,400.00



## MONTANA INVESTMENTS - SCHUMACK

NAME	DATE OF INVESTMENT	AMOUNT OF INVESTMENT	AMOUNT OF RETURN
Investor 18	10/25/2013	\$14,000.00	\$0.00
Investor 18	12/17/2013	\$21,000.00	\$0.00
Investor 18	12/17/2013	\$14,000.00	\$0.00
Investor 19	9/26/2013	\$35,150.00	\$9,000.00
Investor 19	12/16/2013	\$35,150.00	\$35,150.00
Investor 20	1/30/2013	\$17,500.00	\$54,900.00
Investor 20	2/26/2013	\$17,500.00	\$0.00
Investor 20	3/25/2013	\$14,000.00	\$0.00
Investor 20	3/29/2013	\$10,500.00	\$0.00
Investor 20	7/28/2013	\$10,500.00	\$0.00
Investor 20	12/27/2013	\$14,000.00	\$0.00
Investor 21	6/28/2013	\$6,000.00	\$600.00
Investor 22	2/20/2013	\$7,000.00	\$3,600.00
Investor 23	12/22/2013	\$14,000.00	\$0.00
<b>TOTAL</b>		\$1,004,300.00	\$471,150.00
<b>TOTAL UNPAID</b>			<b>\$533,150.00</b>